

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 INT-05 GSA-01 /092 W

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R 211436Z AUG 75

FM AMCONSUL HAMBURG

TO SECSTATE WASHDC 3507

INFO AMEMBASSY BONN

AMEMBASSY BIENNA

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E.O.11652: N/A

TAGS: EINV BGEN GW

SUBJECT: A NEW OWNER FOR REYNOLDS ALUMINUM GMBH

REF: HAMBURG 0196 AND PREVIOUS

1. SUMMARY. AMID CONTINUING LEGAL PROBLEMS AND SOME POLITICAL INFIGHTING, REYNOLDS ALIMINUM IS SET TO SELL ITS LOCAL FACILITIES TO THE CITY OF HAMBURG. REYNOLDS AND TWO PARTNERS, THE GERMAN AND AUSTRIAN NATIONAL ALUMINUM COMPANIES, WILL THEN OPERATE THE PLANT ON A LEASE/PURCHASE BASIS WHILE THE CITY ASSUMES LIABILITY FOR LOSSES DUE TO LEGAL TROUBLES. POLITICAL SNIPING AT THE DEAL HAS ALREADY BEGUN, BUT WILL PROBABLY NOT BE STRONG ENOUGH TO UPSET THE NEW ARRANGEMENT. END SUMMARY.

2. FACED WITH CONTINUING LOSSES DUE TO THE COMBINED EFFECTS OF LOCAL LEGAL PROBLEMS AND A FALLING WORLD ALUMINUM MARKET, REYNOLDS ALUMINUM GMBH HAS FOR SOME TIME BEEN LOOKING FOR A WAY TO REDUCE ITS EXPOSURE IN THE HAMBURG PLANT. THE CITY OF HAMBURG, WHICH IS GUARANTOR

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FOR THE REYNOLDS PLANT FINANCING, HAS BEEN EVEN MORE

CONCERNED THAT THE PLANT MIGHT CLOSE. IT NOW APPEARS THAT A WAY OUT FOR BOTH PARTIES HAS BEEN FOUND. ACCORDING TO PLANS NOW AGREED TO IN PRINCIPLE BY ALL PARTIES, THE CITY OF HAMBURG WILL ON OCTOBER 1 BECOME SOLE OWNER OF THE REYNOLDS ALUMINUM SMELTER AND ROLLING MILL. FOR A TOKEN PAYMENT OF ONE DEUTSCHE MARK, HAMBURG WILL TAKE OVER BOTH THE PHYSICAL ASSETS OF THE PLANT AND THE CORRESPONDING FINANCIAL LIABILITIES. ACTING THROUGH A SOON TO BE CREATED HOLDING COMPANY, THE CITY WILL THEN LEGALLY SEPARATE THE REYNOLDS PLANT INTO ITS COMPONENT PARTS. THE ROLLING MILL WILL BE OPERATED UNDER A LEASE/PURCHASE ARRANGEMENT BY REYNOLDS INTERNATIONAL. THE SMELTER WILL GO, ALSO ON A LEASE/PURCHASE PLAN, TO A COMBINE FORMED BY REYNOLDS INTERNATIONAL, THE GERMAN GOVERNMENT-OWNED ALUMINUM COMPANY "VEREINIGTE ALUMINIUM WERKE" AND AUSTRIA'S GOVERNMENT ALUMINUM COMPANY "VEREINIGTE METALLWERKE RANSHOFEN-BERNDORF AG."

3. PROPOSED FINANCIAL ARRANGEMENTS NECESSARY TO THE REORGANIZATION ARE RELATIVELY SIMPLE. FIRST, REYNOLDS GMBH WILL BUY BACK, FOR DM 16.5 MILLIONS, TWO SMALL COMPANIES WHICH CONSTITUTED PART OF THE ORIGINAL REYNOLDS INVESTMENT. SECOND, THE CITY IS TO ASSUME FULL LIABILITY FOR INTEREST AND PRINCIPAL PAYMENTS FOR THE ONE-THIRD OF THE SMELTING OPERATION NOW CLOSED BY COURT ORDER. THIRD, HAMBURG WILL ALSO ASSUME FULL RESPONSIBILITY FOR THE CORRESPONDING DEBTS IN CASE THE SMELTER IS CLOSED DUE TO THE FLUORINE EMISSIONS PROBLEM REPORTED PREVIOUSLY. FINALLY, THE THREE COMBINE MEMBERS WILL COMMIT THEMSELVES TO CONTINUE THEIR LEASE PAYMENTS OVE THE NEXT 22 AND A HALF YEARS, WHEN ALL DEBTS WILL BE PAID AND THEY BECOME OWNERS OF THE FACILITIES, EVEN IF MARKET OR OTHER ECONOMIC CONSIDERATIONS FORCE THEM TO CLOSE THE PLANT.

4. THE FREE DEMOCRATIC PARTY (FDP), COALITION PARTNERS OF THE RULING SOCIAL DEMOCRATS (SPD), HAS DEMANDED AN INVESTIGATION INTO THE REYNOLDS CASE, WHILE THE OPPOSTION CHRISTIAN DEMOCRATS (CDU) HAVE PUBLICLY COMPLAINED THAT THEY DID NOT RECEIVE ALL THE FACTS WHEN THEY AGREED TO THIS SPD-SPONSORED DEAL. ASIDE FROM THAT SINGLE COMPLAIN, THE CDU IS HOLDING ITS FIRE, AT LEAST UNTIL THE PARTY LIMITED OFFICIAL USE

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MEETING SCHEDULED FOR SEPTEMBER 9. IT APPEARS THAT SOME PUBLIC INVESTIGATION WILL BE MADE INTO THE BACKGROUND OF THE PROBLEM. BEYOND POSSIBLY CAUSING SOME EMBARRASSMENT TO THE LOCAL SPD, AND ESPEICALLY ITS ECONOMIC MINISTER SENATOR KERN, THE PROCEDURE WILL PROBABLY HAVE LITTLE EFFECT.

5. COMMENT. THERE ARE STILL A NUMBER OF STEPS TO

COMPLETE BEFORE THE DEAL GOES THROUGH. A SERIES OF  
CONTRACTS AMONG THE CONSORTIUM PARTNERS AND BETWEEN THEM  
AND THE CITY MUST BE NEGOTIATED AND SIGNED. THE BOARD  
OF DIRECTORS OF THE COMPANIES MUST APPROVE AND HAMBURG'S  
LEGISLATURE MUST DO THE SAME. FINALLY, OF COURSE, THE  
BANKS FINANCING THE VENTURE WILL BE PAYING CLOSE  
ATTENTION. IN SPITE OF THESE VARIOUS POSSIBILITIES FOR  
UNFORESEEN PROBLEMS, IT APPEARS THAT THE DEAL HAS A  
GOOD CHANCE. THE SEVERAL PARTIES TO THE AGREEMENT ARE  
ALREADY WELL ALONG IN THEIR NEGOTIATIONS AND THE LOCAL  
REYNOLDS MANAGER IS CONFIDENT THAT THE NEGOTIATIONS WILL  
BE SUCCESSFUL. POLITICAL PROBLEMS EXIST, BUT THEY APPEAR  
TO BE DUE MORE TO JOCKEYING FOR POSITION THEN TO  
OPPOSITION TO THE REORGANIZATION. WE EXPECT TO HEAR  
CHARGES AND COUNTERCHARGES WITHIN THE HAMBURG STATE ASSEMBLY  
WHEN THE NEW ARRANGEMENT COMES UP FOR APPROVAL. HOWEVER,  
THE CITY CAN AFFORD NEITHER THE UNEMPLOYMENT NOR THE DEBT  
WHICH WOULD RESULT IF THE REYNOLDS PLAN WERE TO CLOSE.  
SOME NEW ARRANGEMENT MUST BE APPROVED AND THIS IS PROBABLY  
AS GOOD A DEAL AS THE CITY WILL GET. BROGAN

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